Distr.
GENERAL

PBC.8/13
9 June 1992

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

Programme and Budget Committee

Eighth session
Vienna, 29 June - 3 July 1992
Item 9 of the provisional agenda

INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS

Mobilization of financial resources for industrial development as a result of military spending reductions

Note by the Secretariat

Summary

In response to Industrial Development Board decision IDB.7/Dec.18, discusses the prospects for redirection to the industrialization of developing countries of resources made available in the process of reduction of military expenditures in developed countries for consideration by the Programme and Budget Committee.

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Introduction

1. The Industrial Development Board at its seventh session took note of the progress report by the Director-General on UNIDO activities related to the mobilization of financial resources for industrial development (IDB.7/22) in its decision IDB.7/Dec.18, paragraph (c), adding that it had followed with satisfaction the positive effects of cold war termination and of mutual arms reductions and cuts in military spending that are paving the way for new possibilities to increase the flow of resources and transfer of technology in order to accelerate industrial investment not only in the developed but also in the developing countries (para. (d)). In the same decision, the Board noted the widening technological, industrial and social gap between the North and the South and its implications for international reconciliation and peace (para. (e)) and requested the developed industrialized countries to consider allocating, inter alia, to UNIDO new additional resources as they become available following military spending reductions. More recently, at its ninth session, the Board also expressed the hope that the eventual conversion of military-related production capacities to civilian uses would release additional funds for development in developing countries (IDB.9/Dec.2, para. (c)).

2. The Board, in paragraph (g) of decision IDB.7/Dec.18 requested the Secretariat to make proposals within UNIDO's areas of competence in this regard to the eighth session of the Programme and Budget Committee for elaboration, so that programming measures could be reflected in the ensuing budget in accordance with the priorities of the medium-term plan.

I. THE "PEACE DIVIDEND": PROSPECTS AND CONSTRAINTS

3. The reduction in international tension has raised hopes both in developed and developing countries of potential savings in government expenditure at present directed towards military purposes and of the diversion of funds to new and more productive ends. This process, known as the "peace dividend" has aroused great expectations, not all of which can be fulfilled. However, the potential is undoubtedly very great. Defence spending represents a considerable share of economic activity in many industrialized countries, amounting to approximately 3.7 per cent of the gross domestic product for the members of the North Atlantic Treaty Organization (NATO) and Japan.*

* Based on information in the Stockholm International Peace Research Institute (SIPRI) Yearbook 1991.

V.92 54219 3277E

Distr.: 12 June 1992

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4. Even though military expenditure is a relatively small part of GDP, the fact that it takes place on such a scale in such highly industrialized countries means that the total absolute value of the resources devoted to defence is very large. A relatively small reduction in defence expenditures, if it were to be diverted towards UNIDO resources as called for in paragraph (f) of decision IDB.7/Dec.18, could have a great relative impact.

5. Despite the relative simplicity and attractiveness of this objective, however, it must be recognized that considerable obstacles exist to its realization. The main difficulty may be that the reduction in military expenditures in the industrialized countries may not take place to the degree indicated by the elimination of the cold war tensions.

6. Other factors militating against proportionate reduction in military expenditures in industrialized countries include pressures from the large armaments industries, as well as from organized labour in the industries concerned. The resistance will be based upon the consequent threat to employment. The effects of reductions in military expenditures on many of the companies concerned could be very significant. The concentration of such industries in certain regions of the countries concerned will also create additional administrative and political pressures from these regions for the retention of the industries.

7. In addition, it must be recognized that the peace dividend, if it takes place, will not necessarily be redirected towards international development goals. One factor will be the desire on the part of many countries to reduce government expenditure in general, in order to reduce the tax burdens on industry and on individual consumers. Again, recession in the industrialized countries has reinforced such desires. A reduction in government borrowing, made possible by the peace dividend, would ease upward pressure on interest rates, thus providing a stimulus to business in the industrialized countries. On the other hand there will be pressures in developed countries for increased social spending caused by unfavourable economic conditions. The effects of unemployment as a result of troop reductions in the industrialized countries would also have to be taken into account. Most of the above considerations are outside the concern of UNIDO: they will, however, influence the likelihood of resources being diverted to the industrialization of developing countries in the manner envisaged.

8. In spite of the considerations mentioned above, it may however be envisaged that the resources made available could be directed towards UNIDO programmes in several forms, but in particular through the Industrial Development Fund as the most appropriate channel to ensure that activities are developed within the priorities of the medium-term plan.

II. ACTION REQUIRED OF THE COMMITTEE

9. The Committee may wish to recommend to the Industrial Development Board that it approve the additional emphasis that would be given to the Industrial Development Fund as the principal channel for programming additional financial resources that might be derived from the reduction of military expenditures in industrialized countries.